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UNCLAS SECTION 01 OF 04 STATE 125339

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: KNNP MNUC IR GM
SUBJECT: INSURANCE AND REINSURANCE INDUSTRY AIDING IRAN,
PROLIFERATION ACTIVITIES

11. (U) This is an action request. Please see paragraph
three.

SUMMARY

12. (SBU) The United Kingdom, France, Germany, Italy, and the U.S. (E4 1) have discussed the adoption of additional national measures to increase the pressure on Iran to end its proliferation-sensitive nuclear activities. After a meeting on October 9, the E4 1 identified insurance and reinsurance as "financial services" for the purposes of sanctions imposed by the United Nations Security Council concerning Iran. These industries are vulnerable to Iranian deceptive practices regarding proliferation. The E4 1 agreed to a joint demarche as a way to inform governments about the risks that Iran poses to the insurance and reinsurance industries in their jurisdictions. Posts are requested to coordinate the delivery of the attached nonpaper to host governments with the local representatives of the United Kingdom, France, Germany, and Italy.

OBJECTIVES/ACTION REQUEST

13. (SBU) Washington requests Posts deliver the talking points and non-paper in paragraph 4 to appropriate host government officials in the foreign and finance ministries. Posts are requested to coordinate the delivery of the attached nonpaper with the local representatives of the United Kingdom, France, Germany, and Italy. Post should pursue the following objectives:

-- Remind host governments that full implementation of UN Security Council Resolutions (UNSCRs) by all members of the international community is critical to addressing the proliferation threat posed by Iran and that many European countries and firms have determined that the risk of doing business with Iran is too great and, as a result, have reduced their business with Iran.

-- Commend the efforts of the European Union and Australia (The EU designated Bank Melli and Australia designated Banks Melli and Saderat) on additional national actions outside of those prescribed by the UN Security Council to curb Iranian proliferation activities.

-- Note that Iran's use of front companies and other

deceptive practices in purchases in commercial and financial activities makes it difficult to know the final end user or ultimate use of any goods or assets.

-- Note that insurance, as a financial service, is included within the scope of UNSCR 1737 obligations requiring states to take measures to prevent the provision to Iran of any financial assistance or services related to the transfer of prohibited items to Iran.

-- Urge host governments to ensure that their insurance companies do not provide insurance to any entities that are engaged in proliferation-related activities, specifically individuals and entities designated under UNSC resolutions 1737, 1747 or 1803, as well as those designated by the USG under Executive Orders 13224 and 13382.

-- Encourage host governments to warn their insurance companies about the risks of doing business with Iran, such as the Iranian regime using its state-owned firms to support terrorism and proliferation-related activity. The Iranian state-owned banks also use deceptive financial practices to support this illicit activity.

BACKGROUND AND NONPAPER

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14. (SBU) BEGIN NON-PAPER

-- Full implementation of UN Security Council Resolutions (UNSCRs) by all members of the international community is critical to addressing the threat posed by Iran. UNSCR 1737 (2006) requires UN Member States to take the necessary measures to prevent the provision to Iran of any financial assistance or services (including brokering) or services related to the transfer, manufacture, or use of prohibited items specified in that resolution.

-- UNSCR 1747 (2007) calls upon States and international financial institutions not to enter into new commitments for providing financial assistance to the Government of Iran, except for humanitarian and developmental purposes.

-- UNSCR 1803 (2008) calls upon States to exercise vigilance over the activities of financial institutions in their territories with all banks domiciled in Iran, including Banks Mell and Saderat, and in entering into new commitments for public-provided financial support for trade with Iran, including insurance, in order to avoid contributing to Iran's proliferation sensitive nuclear activities or to the development of nuclear weapon delivery systems.

-- UNSCR 1803 also calls upon States, in accordance with their national legal authorities and consistent with international law, to inspect cargo to and from Iran of aircraft and vessels owned or operated by Islamic Republic of Iran Shipping Line (IRISL) when there is reason to believe it is carrying items prohibited under UNSCRs 1737, 1747 or 1803.

-- In addition, UNSCRs 1737, 1747 and 1803 require all States to ensure that no financial assets or economic resources are made available by any persons or entities in their territories to or for the benefit of those designated by the UN Security Council in these resolutions or by those acting on their behalf.

-- We have worked with the banking sector on implementation of the Iran-related UNSCRs, but other financial sectors - such as the insurance sector - are also vulnerable to the risk of facilitating Iranian proliferation activities and support for terrorism by providing insurance services to Iranian entities. We understand that there are several areas where Iran would have a need for the type of reinsurance

provided by companies in your jurisdiction - in particular, for coverage in the aviation and energy sectors.

IRISL Activities:

-- We have discussed the activities of IRISL with your government. The United States designated IRISL and 18 subsidiaries and foreign joint ventures under national authorities (Executive Order 13382) on September 11, 2008 for facilitating shipments of military cargo destined for the Ministry of Defense and Armed Forces Logistics (MODAFL) and its subordinate entities, including organizations that have been designated as subject to targeted sanctions by the United Nations Security Council in Resolutions 1737 and 1747.

-- We remain concerned about the activities of the Islamic Republic of Iran Shipping Lines (IRISL), which we understand acquires liability insurance and other services from P&I Clubs. We would like to discuss with you the risks associated with providing such financial services and insurance coverage to an Iranian entity.

-- Even if P&I Clubs in your jurisdiction may not cover a loss determined to have occurred in the context of illicit activity, the act of providing coverage to Iranian companies like IRISL both legitimizes their operations and enhances those companies' ability to engage in nefarious activity. We have seen evidence that such illicit activity continues.

-- IRISL continues to carry cargo destined for entities designated by the United Nations Security Council. Several IRISL vessels had cargo impounded in 2007 because they were transporting dual-use items to designated entities or to entities acting on their behalf.

-- IRISL is increasingly employing deceptive practices to

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disguise its involvement in shipping operations and the destination of its cargo. This includes modifying documents, changing ship names or registration, and developing schemes to shroud IRISL's involvement in order to secure bank cooperation.

-- Such deceptive conduct allows Iran to abuse coverage provided by P&I Clubs in your jurisdiction that participate in an insurance pool, even if all reasonable due diligence is done by that Club.

Reinsurance Sector:

-- We are increasingly concerned that reinsured Iranian activity in these and other sectors is being exploited for activities prohibited by the UN or that reinsured activity may be controlled by Iranian entities designated by the UN. We want to discuss the risks associated with providing such financial services to Iran.

-- Even if the reinsurance company may not cover a loss determined to have occurred in the context of illicit activity, the existence of coverage for Iranian companies enhances their ability to conduct illicit activity. Iranian entities continue operating with the financial security achieved by having their operations reinsured on the global reinsurance market, and we have seen evidence that illicit activity continues.

-- Deceptive conduct allows Iran to abuse coverage provided by the global insurance industry, even if all reasonable due diligence is done by the insurance company.

-- To avoid providing financial services prohibited by the UN Security Council, we ask that companies in your jurisdiction review coverage and/or brokering services they may provide to Iranian companies or projects in Iran operated by other companies, consider rescinding reinsurance policies under

contract, and not provide coverage to Iran or to projects in Iran in the future. A first step could be ending existing relationships and refraining from beginning new relationships with the Central Iranian Insurance Organization and the Iran Insurance Company.

-- Swiss Re, a global reinsurance firm, recognized the risk of providing coverage to the Iranian regime and stated that it will no longer insure Iranian activities. We ask that companies in your jurisdiction take similar steps which would contribute to international efforts to address Iranian illicit activity.

Iran Insurance Company:

-- We are concerned about the activities of the Iran Insurance Company.

- Iran Insurance Company insured 16 shipments of materials between February and August of 2008 that were consigned to Bank Mell, Bank Saderat and Bank Mellat.
- Iran Insurance Company in October 2007 insured a shipment of an emissometer for a Malaysia-based Iranian procurement to Iran Communications Industries (ICI) in Iran via Malaysia. This emissometer is sophisticated U.S.-origin technology capable of being used in a ballistic missile program. The freight forwarding company used for this shipment is heavily utilized by the procurement front company to transship materials from suppliers to Iran in circumvention of sanctions and end-user requirements on dual-use goods.
- Iran Communications Industries is a communications technology production, research and development company and is a subsidiary of Iran's Ministry of Defense and Armed Forces Logistics (MODAFL).
- In March 2008, Iran Insurance Company insured a shipment of aluminum alloy sheets to Iran Aircraft Manufacturing Industries Company. Aluminum alloy sheets can be used to produce airframes for ballistic missiles and aircraft.
- In September 2007, the Iran Insurance Company insured a shipment of Australia Group-controlled equipment, specifically glass-lined chemical reactors, from China to Iran. Glass-lined chemical reactors are useful in the production of chemical warfare agents.

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REPORTING DEADLINE

15. (U) Posts should report results within seven business days of receipt of this cable. Please slug replies for ISN, T, TREASURY, and NEA. Please include SIPDIS in all replies.

POINT OF CONTACT

16. (U) Washington point of contact for follow-up information is Kevin McGeehan, ISN/CPI, (202) 647-5408, McGeehanKJ@state.sgov.gov.

17. (U) Department thanks Post for its assistance.
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